

## Message Text

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61

ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 CAB-09 CIAE-00 COME-00 DODE-00

DOT-00 INR-11 NSAE-00 RSC-01 FAA-00 SS-20 NSC-07 L-03

TRSE-00 AID-20 OMB-01 FRB-03 XMB-07 PA-04 PRS-01

USIA-15 DRC-01 /131 W

----- 098886

R 291725Z AUG 74

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 2298

INFO AMCONSUL GUAYAQUIL

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E.O. 11652: N/A

TAGS: ETRN, EC

SUBJ: CIVAIR - FOREIGN GOVERNMENT SUBSIDIES TO FOREIGN AIRLINES

REF: A. STATE 162608; B. QUITO 5030

1. THE COMPLETION OF THE GOE TAKEOVER OF EMPRESA ECUATORIANA DE AVIACION (EUCATORIANA) (REFTEL B) ON JUNE 30 NOW PLACES TWO OF ECUADOR'S AIRLINES IN GOVERNMENT'S HANDS. TRANSPORTES AEREOS NACIONALES ECUATORIANOS (TAME) IS A GOVERNMENT OWNED AIRLINE WHICH OPERATES WITHIN THE COUNTRY. THERE IS NO HISTORICAL BASIS FOR A REALISTIC EXPECTATION OF AN ADEQUATE ECONOMIC RETURN ON THE CAPITAL INVESTED IN ECUATORIANA SINCE IT HAS A LONG HISTORY OF FINANCIAL TROUBLES. TAME HAD BEEN OPERATING PROFITABLY UNTIL IT ACQUIRED 96 PERCENT OF ECUATORIANA'S SHARES IN 1972 AT WHICH POINT IT TOO BEGAN TO FACE FINANCIAL DIFFICULTIES. THERE IS LITTLE DOUBT THAT GOE'S ACQUISITION OF ECUATORIANA CONSTITUTES A SUBSIDY AS PER PARAGRAPH 1-A OF REFTEL A. NEWSPAPER EDITORIALS ASKED FOR GOVERNMENT CONTROL OF ECUATORIANA TO SAVE THE ONLY ECUADOREAN PASSENGER AIRLINE OPERATING OUTSIDE OF ECUADOR.

2. ECUATORIANA'S CONTRACT FOR THE PURCHASE OF 2 BOEING 720'S

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FROM AN ISRAELI FIRM IS GUARANTEED BY THE MINISTRY OF FINANCE.

ECUATORIANA, HAD IT BEEN A PRIVATE FIRM, WOULD HAVE BEEN HARD  
PRESSED TO OBTAIN FINANCING FOR THE PURCHASE GIVEN ITS POOR DEBT-  
SERVICING PERFORMANCE IN THE PAST. THE FIRM HAD BEEN ON THE  
VERGE OF BANKRUPTCY IN 1972 WHEN TAME STEPPED IN TO SAVE IT.  
IT WAS AGAIN ON THE BRINK OF COLLAPSE, DRAGGING TAME WITH IT,  
WHEN THE GOVERNMENT STEPPED IN ON JULY 31, 1974.

3. TAME HAS AN ADVANTAGE OVER SAN AND SAETA, BOTH PRIVATELY  
OWNED COMPANIES WHICH OPERATE WITHIN ECUAODR. IF A SAN OR  
SAETA FLIGHT BECOMES LUCRATIVE BECAUSE PASSENGERS PREFER TO FLY  
AT THAT TIME, THE GOVERNMENT BY DECREE GIVES THAT PREFERRED  
TIME TO TAME. IN THE PAST, SAN AND SAETA, IN PARTICULAR, HAVE  
BEEN THE PREFERRED MEANS OF TRAVEL BETWEEN QUITO AND GUAYAQUIL.

4. COL. (RET) GONZALO FERNANDEZ, GENERAL MANAGER OF ECUATORIANA,  
INFORMED EMBOFF THAT GOE WILL SOON ISSUE A DECREE REQUIRING ALL  
GOVERNMENT PERSONNEL TO TRAVEL VIA ECUATORIANA. THE REQUIREMENT  
WILL INCLUDE ALL OTHER PERSONS WHOSE FARE IS PAID BY THE GOVERN-  
MENT, FOR EXAMPLE GOVERNMENT SCHOLARSHIP RECIPIENTS. HOWEVER,  
FERNANDEZ SAID HE DID NOT BELIEVE MAIL WOULD BE REQUIRED TO BE  
SENT VIA ECUATORIANA SINCE FLIGHTS ARE LIMITED TO LIMA, CALI,  
BOGOTA, PANAMA, MEXICO CITY, AND MIAMI.  
BREWSTER

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** CIVIL AVIATION, TRANSPORTATION SUBSIDIES, AIRLINES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 29 AUG 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** martinml  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974QUITO05743  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D740240-0289  
**From:** QUITO  
**Handling Restrictions:** n/a  
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**Legacy Key:** link1974/newtext/t1974087/aaaaafza.tel  
**Line Count:** 84  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 2  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** A. STATE 162608; B. QUITO 5030  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** martinml  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 11 SEP 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <11 SEP 2002 by boyleja>; APPROVED <26 FEB 2003 by martinml>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** CIVAIR - FOREIGN GOVERNMENT SUBSIDIES TO FOREIGN AIRLINES  
**TAGS:** ETRN, EC, ECUATORIANA DE AVIACION, EMPRESA ECUATORIANA DE AVIACION  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005